

THE DEFENSE INDUSTRY IN FRANCE

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THE DEFENSE INDUSTRY MARKET IN FRANCE

Introduction

In the defense industry, the United States and France share many similarities, including their standing as the top world exporters in the defense sector. French firms have often been among the primary competitors of U.S. defense exporters in third country markets, and France's defense industry has the greatest breadth and depth of that of any Western European country. The French government also has one of the largest defense procurement budgets in Europe. The French defense industry employs 175,000 people, representing 4.5 percent of total French industrial employment, and generates roughly 15 billion euros in sales yearly.

In 2000, French GDP grew by 3.2 percent, following 2.3 percent growth in 1999 and 3.2 percent in 1998, the best performance in 10 years and a marked improvement since the slow growth of the mid-1990s. Inflation has remained low and under control. Strong growth helped bring the unemployment rate to nearly 9 percent by the end of 2000. Overall, France is the ninth-largest trading partner of the United States worldwide and the second largest in Europe after the United Kingdom.

Market background

France remains the most independent of the NATO allies, and does not participate in its integrated military structure. This independence has resulted in an armaments industry enjoying a full range of military production capability. France has traditionally dedicated an average of 3 percent of its GDP to its defense budget. This percentage, however, has been gradually decreasing, and the 2000 budget equaled about 2.5 percent of GDP. The 2001 budget includes a 1.3 percent boost for procurement, to a level of USD 10.9 billion. This increase will largely be used to purchase 20 Rafale combat aircraft for the Air Force and Navy, and 52 Leclerc tanks for the Army. The largest slice of France's 2001 procurement budget, 37 percent, will be dedicated to new equipment, while 24 percent is earmarked for R&D. The major future impact on the France's defense budget may be its contribution to the planned European Rapid Reaction Intervention Force, due to be operational in 2003. France, as well as many other EU members, have committed to supplying personnel, weaponry and support systems to the 60,000-person force. Given that some of the capabilities and equipment needed do not yet exist in Europe, and European sources are preferred, the cost of outfitting the force may be very high.

Over the past year, the pursuit of a more integrated European defense industry has led to the formation of two key players – the Franco-German-Spanish

merger of Aerospatiale-Matra, DASA and CASA to form the European Aeronautic Defense and Space (EADS) Co., and the British Aerospace merger with GEC Marconi to form BAe Systems. These two watershed consolidations have led to the creation of the world's third and fourth largest defense contractors. Consolidation has also taken place in defense electronics, with the merger of Thomson-CSF (now known as Thales) with part of Alcatel and recently with Racal of the UK.

These mergers have created national and European defense poles in the aerospace and defense electronics fields. At the same time, much consolidation remains to be done Europe-wide in the naval and land armaments industries.. Consolidation is seen as a means of competing on an equal footing with U.S. industry, as well as providing the necessary prerequisites and conditions for further transatlantic industrial teaming.

Recent examples of this teaming include the air defense and radar joint venture between Thales and Raytheon, Thales Raytheon Systems, which is expected to receive government approval in March 2001, and the ongoing discussions between EADS and Northrop Grumman on the feasibility of a joint venture in intelligence and surveillance.

Changes in French defense institutions

French President Jacques Chirac's defense reforms, in particular the abolition of conscription, are leading to a more effective and deployable all-volunteer force. Reform of the defense procurement agency, *Direction General de l'Armement* (DGA), underway since 1997, is improving the management of procurement activities, including the semi-privatization of its industrial holdings and consolidation of its government-led activities. A more professional French military and continued modernization of its defense arsenal remain strong political objectives for the French government.

In addition, a key defense priority is to ensure that the French military be capable of force projection, and to work effectively within a multinational force far from home and in an intense military operation such as the Gulf War or the more recent operations in Bosnia and Kosovo. Lessons from these operations point to a greater need for interoperability with NATO allies and for the means to reduce an acknowledged capabilities gap with the United States.

By 2015, the French military expects to have the capability to project 50,000 soldiers out of theatre, to take part in a major engagement as a lead nation or within a NATO framework, or projecting and sustaining 30,000 soldiers to a theater of operation for one year while simultaneously deploying 5,000 relievable soldiers to another theater. This objective highlights, among other needs, an airlift requirement, which is supposed to be met by the A400M military transport aircraft. The French Navy expects to deploy an aircraft carrier along with an amphibious group composed of submarines, logistics personnel and associated equipment. The objective of the French Air Force is to be capable of deploying 100 fighter aircraft to at least three bases in a theater.

France is leading a significant effort to establish both political and military infrastructures within Europe to bring about a European defense identity. How this will work with NATO remains to be seen.

Decision Making and Market Access

_____Institutions_____

The DGA is the official body responsible for all armament programs in the three defense services and for the national police. It controls research, development and production, in collaboration with the Joint Chiefs of Staff and the three service chiefs of staff. To implement the cost-cutting measures sought throughout the DGA's administrative and management layers, Jean-Yves Helmer, the current Chief of Procurement Programs, has been focusing on introducing a competitive philosophy throughout the organization. His efforts at streamlining and modernizing the DGA have been reasonably successful. One innovation is the beginning of on-line procurement, which is still in its early stages.

The DGA contains a Directorate for Cooperation and Industrial Affairs, charged with coordinating the pursuit of industrial restructuring and international armaments cooperation. While it is currently focusing on cooperation opportunities with its European Union (EU) neighbors, it has made a significant effort to build upon a solid bilateral relationship with the U.S. through multiple means, including more than 100 Data Exchange Agreements (DEAs) -- more than with any other European nation, and through multiple international cooperation agreements, including cooperative R&D. Also, in a major initiative with the U.S., it co-sponsored the first ever Defense Industry Business Forum in Toulouse in December 1999, bringing together for 3 days over 100 French and US Defense firms in an attempt to enhance the transatlantic dialogue.

The traditional close relationship between the French MOD and the French armaments establishment is giving way to a more competitive environment, as the French state becomes less an owner of its major suppliers, and more a client.

Tenders

There are three fundamental contracting possibilities for tenders:

- **Automatic Tender** - Similar to a bid invitation; may be "public," openly competed, or "selective" (restricted to certain contractors).
- **Discretionary** - A Request for Proposal (*appel d'offres*); "public selective," limited to contractors whose performance is well known.
- **Private Contract** - A negotiated contract, used only in rare cases.

When bidding on government contracts, all correspondence and technical documents must be prepared in French. Contracts are signed by the DGA Operational Directorates and are reviewed by permanent review committees and the Comptroller General.

Teaming arrangements

Industrial teaming arrangements are highly recommended when entering the French market, as they are for French firms wishing to enter the U.S. market. Not only French partners, but other European partners should be considered. While the current perception of a "European preference" is certainly true to an important degree, there is increasing emphasis being put on procurement of defense articles at "best value." There have been recent cases of U.S. firms winning a French procurement contract at the expense of a French company.

Prime contractors are required by law to select their subcontractors, but the government's industrial policy is currently oriented towards favoring small-to-medium sized enterprises, or SMEs (in French, "PME-PMI") in an effort to secure for them a place in the consolidation process and greater access to contract awards. The choice of a suitable teaming arrangement in preparing for a procurement action is becoming more relevant. DGA is not adverse to the scenario of French and US firms teaming up in response to a French Request for Proposals (RFP). For a US firm, in fact, it is almost indispensable.

Finally, France was instrumental in the creation of the four nation (France, United Kingdom, Italy, Germany) joint armaments procurement organization, OCCAR, in November 1996. In January 2001, OCCAR finally obtained the legal status which will allow it to contract directly with industry in the member states, freeing it from some of the political and structural restraints which have hampered it until now. More importantly, OCCAR has recently been given oversight, on behalf of seven European nations, of their purchases of A400 military transport aircraft contract. This program, estimated at USD 20 billion, reinforces OCCAR's bid to be a trans-national procurement force. In addition to the A400M, OCCAR currently handles about a dozen procurement programs, notably HOT, Milan and Roland missiles, the future FASF ground-to-air missile, the Tigre helicopter and the Cobra program. **In the long term, its ambition is to harmonize military requirements and stimulate more coordinated and efficient military purchases in Europe.**

All U.S. companies should contact the French International Cooperation and Industrial Affairs Directorate (DCI) of the DGA, as well as the US Embassy in France's Office of Defense Cooperation (ODC), before pursuing armaments business in France. DCI is tasked with coordinating France's international armaments commitments. It controls licensing and technical assistance programs, as well as staffs positions at the United Nations and NATO.

Offset Requirements and Duties

There is no official offset policy in France, but offset requirements are usually a feature of large contracts. Import duties are generally waived for official defense purchases. Commercial purchases in the defense field must apply commercial tax rates.

All items that are intended to be left in France must be declared with France customs. All goods for commercial use, professional effects, and any prohibited goods must be declared. Goods imported for exhibition may be entered under bond, deposit, or ATA Carnet.

Professional equipment may be temporarily imported into France free of duty and tax under the customs convention on temporary importation of professional equipment. For this purpose, a Carnet may be obtained from the U.S. Council of the International Chamber of Commerce.

Major Programs and Opportunities for Cooperation

The U.S. Department of Defense has proposed that France, the United Kingdom, and Germany examine a list of potential major programs on a 10-15 year horizon. French inter-governmental cooperation on new programs is focused on European partners, in the interest of promoting consolidation of European industry and retaining European, if not strictly French, autonomy in the major areas of acquisition. Nevertheless, many French officials recognize the need to cooperate with the U.S., especially in the C4I area.

France has signed multiple bilateral Memoranda of Understanding (MOUs) with its European neighbors to exchange defense requirements data. It is estimated that the number of French cooperative programs with other European countries will double in the next six years, from 15 percent to 30 percent of total programs.

Despite its public position that European defense integration is the surest way of ensuring the viability of the French defense industrial base against American industrial giants, France has more data exchange agreements with the United States than with any other nation. There are also over 200 active FMS cases underway. FMS purchases are currently oriented towards naval surface and naval aviation equipment, air force tankers, and air force early warning aircraft.

Industry-to-industry cooperation is clearly on the rise, as U.S. firms seek opportunities to win European defense competitions through partnerships with European firms and vice versa. For example, EADS is exploring a number of areas of potential collaboration with Northrop Grumman Corp., while Raytheon and Thales are cooperating on a project-by-project basis including a NATO air defense program. In the naval field, Bath Iron Works and the French government-owned shipbuilding organization, Direction de Constructions Navales (DCN), have sought cooperation in the past to build ships for the international market.

Over forty projects have been targeted by France for multinational cooperative development during the 1997-2002 timeframe, with funds doubling for international programs during this period. American firms are strongly advised to develop partnerships and joint ventures with French firms as a viable means to accessing these programs.

Major Procurement Programs

The status of major procurement programs in the 2002-2005 period are as follows:

Army:

- **Tigre Helicopters** – MOU with Germany covering production of 160 helicopters.

- **VBCI Infantry Fighting Vehicle** – will be produced in two versions – troop carrier and command and control vehicle. Should proceed to full production by 2005.
- **LeClerc Main Battle Tanks** – 307 LeClerc MBTs to be deployed by 2002, with final number of 406 “in the future.”
- **BONUS Smart Anti Armor Ammunitions** – Bofor to develop; system should be fielded by 2002
- **NH-90 Transport Helicopter** – hope to resolve issues among the four partners and proceed to initial productions by 2005.

Air Force:

- **Rafale Fighter Aircraft** – first squadron operational in 2005.
- **MICA missiles** – intended to equip the Rafale and Mirage 2000DA.
- **APACHE Scalp cruise missiles** – area denial/anti-runway versions delivery to begin in 2002.
- **Helios II** – on track for development in 2002.
- **Mirage 2000 Fighter Aircraft** – initial delivery of 37 units.
- **FSAF Surface to Air Missile** – to be developed with Italy in four versions.
- **Meteor (BVRAAM) Missile** - development phase should take six years once the contract to equip Eurofighter is signed. Meteor selected by Germany, Italy, Spain, France and Sweden.
- **A400M** - France to buy 50 units from the 7-partner program; first deliveries in 2007

Navy:

- **Aircraft Carriers** – second carrier in cooperation with the U.K. scheduled for operation by 2012.
- **MU 90 Light torpedoes** – development expected after 2000.
- **E2C Hawkeye** – France has purchased 3, decision on 4th after 2002.

Competition

France has sophisticated defense, aerospace, and telecommunications industries, placing it among the world's leaders in these fields. Faced by pressing budget imperatives, the French Government is squeezed between its target of maintaining its position as a major military force and as a player in international peacekeeping, and the need to bring budget deficits down and control spending. In addition, it must face the increasing political and economic pressure to rationalize the European aerospace and defense industries, in spite of its desire to maintain an defense industrial base, including the employment benefits it brings.

Since France produces the overwhelming majority of its own defense requirements, most U.S. defense firms are less involved in direct sales exports and more involved in foreign military sales/financing (FMS/FMF) programs, and after-sales technical support and/or corporate representation. Other U.S. defense firms are present in the market in connection with offset programs.

When approaching the French defense market, it is important to bear in mind that French corporations such as Aérospatiale-Matra (now merged into EADS), Thales, Dassault, DCN, Alcatel, Alsthom, Sagem, Snecma and GIAT contribute

significantly to overall market demand, with privately financed programs and large scale export activities. These firms are often majority partners in collaborative European projects. The largest of these companies are usually awarded prime contracts that cover approximately 80 percent of the French defense equipment budget. Some, such as SNECMA, DCN and GIAT are still majority owned by the French Government. In general, prime contractors keep only minority portion of the contract value in-house, preferring to subcontract the remainder. The French subcontractor base is also large and diversified.

Nevertheless, for defense materiel that France does import, U.S. firms are the primary source. France operates a fleet of Boeing AWACS, Lockheed C-130's, and recently purchased Northrop-Grumman E2C Hawkeyes. France requested and received a Linked Operations-Intel Center Europe (LOCE) work station for use in support of its participation in NATO IFOR operations. **The U.S. is by far the most important foreign defense supplier to France, both in terms of quantity and value. In order to penetrate the French market, companies must provide, above all, access to technology that the French do not have. The ability to provide off-the-shelf solutions is also becoming more important.**

French Business and Economic Profile

French Defense Industries

The defense market in France is experiencing profound change largely due to ongoing reduction in the national defense budget, and European-wide consolidation. The defense budget has decreased from roughly 3.0 percent to only 2.5 percent of GDP in 2000. The Ministry of Defense's (MOD) overall procurement budget decreased to 12.5 billion euros in 2000 from 13 billion euros the previous year. In fact, all European allies are facing the same sort of fiscal realities the U.S. military faced 5 to 10 years ago, although France have chosen to cut less than most of its neighbors. At the same time, however, serious weaknesses in military capabilities have been identified, in particular during the Kosovo campaign, where French and European forces were badly lagging US capabilities. The funds needed to bring French military forces fully in line with their objectives have yet to be found.

In spite of the cutbacks, the French defense market is large, varied and sophisticated. The third largest arms exporter in the world, and with the biggest and most varied domestic procurement budget in Europe, the French defense industry has the capability to offer a wide range of arms on the international market, including diesel-powered submarines, a product that the United States does not currently offer.

Exports

The export of arms plays a significant role in the French economy, with an estimated 60,000 jobs directly linked to this sector, with total export sales reaching 4.6 billion euros in 1999. Benefits derived from arms exports contribute to the research and development (R&D) sector which ultimately helps preserve France's technological independence – a status the French want to ensure at all costs. **Given its large and advanced defense industry, France is potentially one of the United States' most important defense cooperation partners, as well one of its strongest competitors.**

Interests and capabilities

The interests and capabilities of the French armaments industry are similar to those of the United States. France is the only country besides the U.S. and Russia to maintain a significant independent nuclear deterrent force (budget reductions forced the elimination of the French land based portion in late 1996). France is the only country in Europe to have a full deck nuclear aircraft carrier, the CHARLES DE GAULLE. It is also the only EU country capable of developing and producing – nose to tail - all of its own fighters and air-launched missiles, one of a handful of countries producing reliable military jet engines. It also builds its own nuclear submarines and aircraft carriers. Nonetheless, France recognizes the need for interoperability, especially in C3I, with the U.S.

The DGA reorganized its export support effort in January 1997, creating a Directorate of International Relations devoted to exports. The French MOD is attempting to improve inter-ministerial coordination of arms exports efforts, and to identify strategic geographic areas of concentration for its export efforts, in order to try to halt the erosion of French market share.

Purchases from the U.S.

France buys U.S. equipment on a cash basis through either Foreign Military Sales (FMS) or Direct Commercial Sales (DCS), when a national or European program cannot fulfill a requirement. Over the last decade, the dollar value of French defense equipment purchases from the U.S. have been on average triple the dollar value of U.S. purchases from France.

Conclusion

Overcapacity in the French arms industry and the rapid restructuring of U.S. industry have provided France the impetus to pursue domestic reform and to push for European reform. France has continued to promote European defense integration and is a core member of the European armaments procurement agency, OCCAR. In addition, French industrial giants are pursuing cross-border mergers that are leading to a true and extensive European armaments industry. Domestic reform includes limited privatization of government-owned firms, reorganizing the DGA, improving acquisition practices, and initiating mergers. Since 1996, the DGA has been under pressure to reduce the costs and development times of new weapons by 30 percent by 2002 and reports concrete progress toward reducing its own operating costs.

The French defense industry is undergoing significant changes as a result of financial constraints, global competition, and changes in military and strategic requirements. It is also increasingly interested in partnerships and strategic alliances in order to meet the many challenges it faces in the years ahead.

Key Contacts:

✓ **Délégation General pour l'Armement (DGA)**

Direction de la Coopération et des Affaires Industrielles (DCI)

4, rue de la Porte d'Issy
00460 Armées, France
Tel: [33] (1) 45-52-70-80
Fax: [33] (1) 45-52-72-81
<http://www.ixarm.com>

✓ **French MOD in the U.S.**

Embassy of France, Armament Section - DRI
Reservoir Road, N.W.
Washington, D.C. 2000-2172
Tel: [202] 944-6440
Fax: [202] 944-6447

✓ **U.S. Office of Defense Cooperation in France**

U.S. Embassy2
2, rue Saint-Florentin
75042 Paris Cedex 01
Tel: [33] (1) 43-12-47-63
Fax: [33] (1) 43-12-45-61
<http://www.amb-usa.fr/usodc/home.htm>

✓ **U.S. Commercial Service**

U.S. Embassy
2, avenue Gabriel
75382 Paris Cedex 08
Tel: [33] (1) 43-12-22-22
Fax: [33] (1) 43-12-21-72
<http://www.csfrance.amb-usa.fr>

French Industrial Associations

✓ **Comité Richelieu**

98, avenue du Général Leclerc
92100 Boulogne, France
Tel: [33] (1) 46-04-55-03
Fax: [33] (1) 46-04-55-38
www.hitech-sme.com
Association of small/medium-sized high-tech firms

✓ **Défense NBC**

11, rue Laugier
75017 Paris, France
Tel: [33] (1) 47-63-10-87
Fax: [33] (1) 47-63-13-62

✓ **GICAT**

64, rue du Ranelagh
75016 Paris, France
Tel: [33] (1) 44-14-58-20
Fax: [33] (1) 42-30-80-89

Association of land defense manufacturers

✓ **GIFAS**

4, rue Galilée

75782 Paris Cedex 16, France

Tel: [33] (1) 44-43-17-00

Fax: [33] (1) 40-70-91-41

www.gifas.asso.fr

Association of aerospace manufacturers

✓ **GICAN**

19-21, rue du Colonel Pierre Avia

75015 Paris. France

Tel: [33] (1) 47-36-80-80

Fax: [33] (1) 40-93-57-72

Association of naval armaments manufacturers

✓ **Office Général de l'Air (OGA)**

33, avenue des Champs-Élysées

75008 Paris, France

Tel: [33] (1) 40-76-20-01

Fax: [33] (1) 42-56-20-48

Export promotion agency for French aeronautics manufacturers

ISA Customer Satisfaction Survey

U.S. Department of Commerce
International Trade Administration
The Commercial Service

The U.S. Department of Commerce would appreciate input from U.S. businesses that have used this ISA report in conducting export market research. Please review the privacy statement / disclaimers at the bottom of this Web site. Please take a few moments to complete the attached survey and fax it to 202/482-0973, mail it to QAS, Rm. 2002, U.S. Department of Commerce, Washington, D.C. 20230, or Email: Internet[Opfer@doc.gov].

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Commerce domestic office that assisted you (if applicable):

2. How did you find out about the ISA service?

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___ Recommended by Commerce staff

___ Trade/state/private newsletter

___ Department of Commerce newsletter

___ Other (specify): _____

3. Please indicate the extent to which your objectives were satisfied:

- 1-Very satisfied
- 2-Satisfied
- 3-Neither satisfied nor dissatisfied
- 4-Dissatisfied
- 5-Very dissatisfied
- 6-Not applicable

- ☐ Overall objectives
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- ☐ Completeness of information
- ☐ Clarity of information
- ☐ Relevance of information
- ☐ Follow-up by Commerce representative

4. In your opinion, did using the ISA service facilitate any of the following?

- ☐ Decided to enter or increase presence in market
- ☐ Developed an export marketing plan
- ☐ Added to knowledge of country/industry
- ☐ Corroborated market data from other sources
- ☐ Decided to bypass or reduce presence in market
- ☐ Other (specify): _____

5. How likely would you be to use the ISA service again?

- ☐ Definitely would
- ☐ Probably would
- ☐ Unsure
- ☐ Probably would not
- ☐ Definitely would not

6. Comments:

* * * About Your Firm * * *

1. Number of employees: ☐ 1-99 ☐ 100-249 ☐ 250-499
☐ 500-999 ☐ 1,000+

2. Location (abbreviation of your state only): _____

3. Business activity (check one):

- ☐ Manufacturing
- ☐ Service
- ☐ Agent, broker, manufacturer's representative
- ☐ Export management or trading company
- ☐ Other (specify): _____

4. Value of export shipments over the past 12 months:

- ☐ Less than \$10K

☐ \$11K-\$100K
☐ \$101K-\$500K
☐ \$501K-\$999K
☐ \$1M-\$5M
☐ More than \$5M

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